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Canadian Cablesystems Limited

(Formerly Famous Players Canadian Corporation Limited)

CANADIAN CABLESYSTEMS LIMITED

THE HONOURABLE JOSEPH A. SULLIVAN, M.B., F.R.C.S.(C), Q.H.S.

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Honorary Chairman of the Board

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TRANSFER AGENT

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Calgary, Halifax, Montreal, Regina, Toronto, Winnipeg, Vancouver

REGISTRAR

THE ROYAL TRUST COMPANY
Calgary, Halifax, Montreal, Regina, Toronto, Winnipeg, Vancouver

CANADIAN CABLESYSTEMS LIMITED

51st ANNUAL REPORT

To the Shareholders:

This first Annual Report to the shareholders, since the reorganization of this Company was confirmed by supplementary letters patent issued by the Honourable Ron Basford on the 12th day of March, 1971 is a relatively simple exposition of the Company's present state of affairs. This approach has been taken for reasons of economy and because no useful purpose would be served in describing in great detail on a comparative basis the diverse activities of the Company in 1970 since those activities came under a complete reorganization effective January 3, 1971. Full details of this reorganization were set forth in an Information Circular dated January 25, 1971 and are briefly summarized below.

FINANCIAL STATEMENTS

The financial statements of the Company (Famous Players Canadian Corporation Limited) as at January 2, 1971 included herein, have been prepared so as to show the Company's financial position as at that date, before giving effect to its reorganization, together with the separate results of operations for 1970 of its theatre and communications divisions. The operating results of the communications division will provide a basis for comparison with the operations of the Company in future years.

Consolidated net earnings for 1970 were \$16,673,848 (\$2.32 per share) as compared with restated net earnings of \$5,774,530 (\$.80 per share) for 1969. The net earnings for 1970 include extraordinary income of \$12,390,270 (\$1.72 per share) compared with extraordinary income of \$1,115,480 (\$.25 per share) in 1969. Net earnings before extraordinary items in 1970 of the Company's communications division and theatre division were \$1,535,794 and \$2,747,784 respectively. Dividends paid in 1970 amounted to \$2,871,315 (\$.40 per share) compared with \$2,781,587 (\$.38 $\frac{3}{4}$ per share) in 1969. Because the Company has sold its theatre and real estate division (although it now holds a 49% interest therein through its shareholdings in Famous Players Limited) and several communication investments in 1970 and 1971, and because the 1969 financial statements of the Company were not prepared on a divisional basis, any further comparison between the Company's operations in 1969 and 1970 serves no useful purpose.

In order to disclose the effect of the reorganization this Report also includes the pro forma consolidated opening balance sheet of the Company (Canadian Cablesystems Limited) and its subsidiary companies (Exhibit 1) and the opening consolidated balance sheet of Famous Players Limited and its subsidiary companies (Exhibit 2), both as at January 3, 1971, on the assumption that the reorganization had taken effect on that date.

The balance sheet of Canadian Cablesystems

Limited (the Company of which you are a shareholder) includes the assets and liabilities formerly comprising the communications business of your Company and its subsidiary companies together with a 48.852% equity interest in Famous Players Limited.

The balance sheet of Famous Players Limited includes the assets and liabilities pertaining to the theatre and real estate business formerly carried on by your Company and its subsidiaries.

It is hoped that the inclusion of these two additional statements (Exhibit 1 and Exhibit 2) together with explanatory notes attached thereto will assist you in understanding what is now represented by your investment in Canadian Cablesystems Limited.

REORGANIZATION

On March 12, 1971, the date upon which the Plan of Arrangement was confirmed, the Company was carrying on business with substantially the assets set forth in the opening balance sheet of the Company as at January 3, 1971. In the period between January 3, 1971 and March 31, 1971, the Company completed the sale of its interests in Powell River Television Company Limited and 60% of its interest in Television de Quebec (Canada) Limitee. These transactions are disclosed in the notes to the financial statements forming part of this Report.

The reorganization of the Company, except the reduction of capital which resulted in the cancellation of the shares held by Gulf & Western (Canada) Limited in the capital of the Company, was completed as of January 3, 1971 and the principal investments (other than notes receivable) of the Company on that date, less the two divestitures mentioned above, were as follows:

Interests in CATV Systems

Company	Percentage interest of the Company	Approx. No. of subscribers to system as at December 1970
Hamilton Co-Axial (1958) Limited	100%	19,000
Grand River Cable TV Limited	100%	47,000
Metro Cable TV Limited	100%	43,000
Cornwall Cablevision 1961 Limited	50%	9,200
London TV Cable Service Limited	50%	41,000
Jarmain Cable TV Limited	34%	16,900
Chatham Cable TV Limited	25%	4,600
Oshawa Cable TV Limited	37.5%	11,500
Alberni Cable Television Limited	20%	4,800

Interests in Television Stations

Company	Percentage interest of the Company
British Columbia Television Broadcasting Systems Limited	11.8%
Bushnell Communications Limited	6.3%
Television de Quebec (Canada) Limitee	20%

Interests in Theatres and Real Estate

Famous Players Limited — 48.852%

Other Interests

Agra Industries Limited — approximately 56,000 shares.

Reduction of Capital

Following the confirmation of the Arrangement between the Company and its shareholders on March 12, 1971, the shares and share purchase warrants held by Gulf & Western (Canada) Limited in the capital of the Company were cancelled and in consideration thereof the Company paid to Gulf & Western (Canada) Limited \$11,000,000.00 cash and delivered an Income Debenture in the principal amount of approximately \$7,000,000.00 bearing interest at the rate of 4% per annum. In addition it is obligated to deliver to Gulf & Western (Canada) Limited approximately 51% of the issued shares of Famous Players Limited. To finance the payment of \$11,000,000.00 to Gulf & Western (Canada) Limited the Company used the proceeds from the sale of various communications interests and additional bank borrowings.

THE COMPANY AND ITS SUBSIDIARIES AND AFFILIATES

While your Company, as it is now constituted, carries out the function of a holding company, nevertheless it has substantial responsibilities in the administration of its operating subsidiaries and affiliates. The company is now in the process of organizing local boards of directors for its subsidiaries to assist in the establishment of policies appropriate to the particular area in which the company in question operates. For example, we are constituting a board of directors for Hamilton Co-Axial (1958) Limited which will include several members from the Hamilton community. A similar programme is being developed for the Kitchener and Toronto operations. In those companies in which there are substantial local interests, local representation already exists and we are encouraging our colleagues to expand this representation.

COMMUNICATION INVESTMENTS

Your Company has an interest as set out above in nine corporations operating cable television systems and in three companies operating six television stations. Eight of the nine cable television systems are in the Province of Ontario and the ninth system

is in the Province of British Columbia. Television de Quebec (Canada) Limitee operates an English and French television station in the City of Quebec and British Columbia Television Broadcasting Systems Limited operates a television station in the City of Vancouver and a television station in the City of Victoria. Bushnell Communications Limited operates a television station in the City of Ottawa and a television station in the City of Cornwall.

At January 2, 1971, the nine cable television systems were providing service to approximately 197,000 subscribers as compared to 168,000 subscribers at the end of 1969 representing a 17% increase. Your Company's equity in the total number of subscribers to all of the above cable television systems at the end of 1970 was approximately 74% or 147,000 subscribers.

All of the above cable television systems enjoyed an increase in their earnings over last year. The Company expects that by the end of 1971 the cable television systems will have approximately 223,000 subscribers and your Company will have a 76% equity therein.

Television de Quebec (Canada) Limitee and British Columbia Television Broadcasting Systems Limited both enjoyed a successful year. However, Bushnell Communications Limited, in which your Company has a 6.3% interest, suffered a reversal in its financial position as a result of forfeiture of deposits made to acquire certain additional communication interests.

On March 30, 1971, your Company participated in a public hearing before the Canadian Radio-Television Commission called to review the effect of the reorganization of this Company upon its licence holding subsidiaries and affiliated companies. To date nothing has been released by the Commission with respect to this hearing.

In October 1970, Cornwall Cablevision (1961) Limited, Metro Cable TV Limited and Grand River Cable TV Limited, in which your Company holds interests as set out above appeared before the Canadian Radio-Television Commission and made application for amendment to their respective licences to allow them to undertake local programming on one or more channels on their systems. The subject of local programming was again dealt with in great detail on March 30, 1971 at the Ottawa hearing mentioned above. All the companies except the Jarmain group, Hamilton Co-Axial (1958) Limited and Alberni Cable Television Limited do not have authority to undertake local programming and consequently have again made application to the Commission for authority to undertake local programming. Their applications are scheduled to be heard by the Commission on June 8, 1971. In the meantime, each of the companies is obtaining and equipping programming facilities necessary for this purpose in the event an authorization is issued by the Commission.

Our plans include making our local programming channels available to many organizations and educational institutions in the community served, as well

as to give students in the vocational and technical training schools the opportunity of gaining practical experience in television programming. Again, it is emphasized that this form of community service will be established and operated by each operating company with local autonomy.

The Canadian Radio-Television Commission has recently completed extensive hearings in the City of Montreal into the role of cable television in the community generally and as a part of the broadcasting industry in particular. The future form to be taken by this industry will, of course, be affected by the conclusions reached by the Commission as a result of this and earlier studies. It is our view that the essential service rendered by cable television, namely an efficient method of receiving signals of available television stations, will continue to be in demand. This need increases daily in the larger cities by reason of increasing man-made interference and shadow effects of tall buildings. The advent of local programming will give further impetus to the attraction of cable television service to the householders.

FAMOUS PLAYERS LIMITED

The very substantial investment of this Company in the theatre and real estate industry is represented by a 49% interest in Famous Players Limited and is the subject of considerable attention from your board of directors. Your Company has at the present time two representatives on the five man board of Famous Players Limited pursuant to arrangements with Gulf & Western (Canada) Limited which were set forth in the quarterly report to shareholders dated the 24th day of February, 1971.

The following is a summary supplied by Famous Players Limited describing that Company's theatre and real estate operations:

(a) Theatre Operations

In 1970 the policy of establishing new theatres in shopping centres and major downtown developments was continued. New cinemas were opened in Palliser Square, Calgary, Devonshire Mall, Windsor, Garden City, Winnipeg, Lambton Mall, Sarnia, Place de Ville, Ottawa and Oshawa Shopping Centre, Oshawa. At the present time a triple auditorium theatre in the Sudbury Civic Centre, a dual auditorium theatre in the Lloyd D. Jackson Square in Hamilton and a dual auditorium theatre in La Riviere Shopping Centre in Three Rivers, Quebec, are under construction. The theatres in Sudbury are scheduled to open in June of this year and the theatres in Three Rivers are expected to open in October of this year. The dual auditorium theatre in Hamilton is expected to open some time in 1972.

The theatre earnings in 1970 were lower than those in 1969 because of the unavailability of a sufficient number of motion pictures acceptable to the public. In the first quarter of this year Famous Players Limited has been fortunate in exhibiting such motion pictures as "Love Story", "Little Big Man", "Patton" and "My Fair Lady". These exhibitions

have been extremely successful with the result that the theatre earnings during the first quarter of 1971 are higher than those in 1970. It is anticipated that the theatre earnings for 1971 will be higher than those for 1970 since it is expected that the Company will have available for the balance of 1971 motion pictures which will find acceptability with the public.

(b) Real Estate

Famous Players Limited has been investigating for some time the feasibility of developing its real estate holdings throughout Canada. In March of this year it announced that it will participate equally with the Bank of Nova Scotia in the construction of a 37 storey office building in the City of Calgary. Included in this development will be three levels of retail facilities and a dual auditorium theatre. The Bank of Nova Scotia will establish its Calgary main branch in this development. Construction is expected to commence in the Spring of 1972.

Famous Players Limited has entered into an agreement with Lothian Mews (Bloor) Limited and Physicians and Surgeons Limited to develop the site of the University Theatre on Bloor Street in the City of Toronto and the lands owned by Lothian Mews and Physicians and Surgeons in the same area. Preliminary plans call for a 30 storey office building including retail facilities and a large cinema.

Famous Players Limited has a 66 $\frac{2}{3}$ % interest in a corporation presently constructing a 14 storey office building on the site formerly occupied by the Capitol theatre in the City of Ottawa. This project will also include multiple theatres.

Famous Players Limited has plans for the re-development of the Starlite Drive-In Theatre in Edmonton. However, this development is subject to applications being approved by requisite governmental authorities. If such approvals are given a 13.5 acre environmental residential complex will be constructed to be known as Whitehall Square. Included in this development will be 431 family units contained in three high rise towers and several garden apartments containing 198 family units.

Famous Players Limited recently participated in the opening of the North Star Inn in the City of Winnipeg which consists of a hotel, dual auditorium cinema and parking garage and is owned by Western Theatres Limited of which Famous Players Limited owns 50%.

GENERAL

Results of the Company's communications operations for the first quarter of 1971 are ahead of the comparable results for 1970. We are advised by the management of Famous Players Limited that the consolidated earnings of that company for the first quarter of 1971 approximate earnings for the first quarter of 1970.

On behalf of the Board of Directors,
W. Z. ESTEY, Q.C.
President and Managing Director

May 14, 1971.

**FAMOUS PLAYERS CANADIAN CORPORATION LIMITED
AND SUBSIDIARY COMPANIES**

CONSOLIDATED BALANCE SHEET

ASSETS

	January 2 1971	January 3 1970
Current assets:		
Cash	\$ 1,315,715	\$ 1,299,523
Short-term investments	4,459,540	852,000
Marketable securities, at cost (market value January 2, 1971 — \$2,471,125)	2,327,010	2,333,571
Receivables from affiliated companies	1,970,479	407,488
Other receivables	2,528,780	2,163,900
Inventories of merchandise, at the lower of cost and net realizable value	1,440,747	1,383,366
Prepaid expenses	1,578,347	903,387
	<u>15,620,618</u>	<u>9,343,235</u>
Investments:		
Notes and mortgages receivable due after one year	5,263,586	2,173,964
Investment in shares of affiliated companies —		
Companies 50% owned (Note 4)	5,980,101	4,539,267
Companies less than 50% owned	1,020,525	1,388,777
Advances to affiliated companies	2,112,813	1,699,497
	<u>14,377,025</u>	<u>9,801,505</u>
Fixed assets, at cost (Notes 2 and 3):		
Land	12,413,382	11,021,929
Buildings, equipment and leaseholds	74,875,014	77,558,895
Less: Accumulated depreciation (Note 11)	(42,079,427)	(43,707,560)
	<u>45,208,969</u>	<u>44,873,264</u>
Other assets:		
Premium (net) on acquisition of subsidiary companies	1,949,698	1,674,042
	<u>\$77,156,310</u>	<u>\$65,692,046</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Bank advances	\$ 1,885,000	\$ 4,054,536
Accounts payable and accrued expenses	3,425,008	3,914,163
Owing to affiliated companies	6,467	10,484
Current portion of long-term debt	1,237,517	974,758
Income taxes payable	336,382	—
	<u>6,890,374</u>	<u>8,953,941</u>
Prepayments for services	1,286,119	1,529,054
Deferred income taxes (Note 6)	1,259,751	1,512,609
Long-term debt, less current portion (Note 5)	4,114,675	3,446,283
Minority interests	594,814	1,042,115
Shareholders' equity:		
Capital stock (Notes 2 and 7) —		
Authorized — 20,000,000 common shares without nominal or par value		
Issued — 7,178,288 shares	15,364,890	15,364,890
Share purchase warrants (Note 7)	1,000,000	1,000,000
Retained earnings (Note 6)	46,645,687	32,843,154
	<u>63,010,577</u>	<u>49,208,044</u>

APPROVED ON BEHALF OF THE BOARD:

W. Z. Estey, Director
Claude Ducharme, Director

\$77,156,310 \$65,692,046

FAMOUS PLAYERS CANADIAN CORPORATION LIMITED
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Fiscal year ended	
	January 2 1971	January 3 1970
Balance at beginning of year:		
As previously reported	\$32,628,054	\$29,553,411
Deferred income tax adjustment (Note 6)	215,100	296,800
As restated	32,843,154	29,850,211
Net earnings for the year	16,673,848	5,774,530
	49,517,002	35,624,741
Dividends paid, 1970 — \$.40 per share; 1969 — \$.38¾ per share	2,871,315	2,781,587
Balance at end of year	<u>\$46,645,687</u>	<u>\$32,843,154</u>

**FAMOUS PLAYERS CANADIAN CORPORATION LIMITED
AND SUBSIDIARY COMPANIES**

CONSOLIDATED STATEMENT OF EARNINGS

	Fiscal year ended			
	January 2, 1971			January 3 1970 (Note 1)
	Communications Division	Theatre Division	Total	
Theatre admissions (excluding amusement taxes), CATV revenue, confection and equipment sales and other income	\$ 4,654,779	\$57,057,105	\$61,711,884	\$52,900,497
Operating expenses, cost of goods sold and administration	2,410,725	50,861,672	53,272,397	45,174,606
Operating profit before the undernoted items	2,244,054	6,195,433	8,439,487	7,725,891
Equity in net earnings of subsidiary communication companies sold (Note 1)	238,238	—	238,238	213,343
Equity in net earnings of 50% owned companies:				
Dividends received	345,150	277,000	622,150	863,430
Share of undistributed earnings (Note 4)	360,104	108,155	468,259	400,489
Other dividends received	132,032	345,919	477,951	555,988
Interest earned and profit on sale of securities	215,554	406,524	622,078	811,596
Profit (loss) on sale of fixed assets	(530)	295,280	294,750	67,747
	3,534,602	7,628,311	11,162,913	10,638,484
Interest expense	323,570	519,867	843,437	380,836
Depreciation (Note 11)	1,060,180	2,046,812	3,106,992	2,615,302
Share of profits to minority interests	37,531	127,442	164,973	270,610
	1,421,281	2,694,121	4,115,402	3,266,748
Earnings before income taxes	2,113,321	4,934,190	7,047,511	7,371,736
Income taxes	577,527	2,186,406	2,763,933	2,712,686
Net earnings before extraordinary item	1,535,794	2,747,784	4,283,578	4,659,050
Extraordinary item:				
Gain on sale of investments (Note 3)	12,390,270	—	12,390,270	1,115,480
Net earnings for the year	\$13,926,064	\$ 2,747,784	\$16,673,848	\$ 5,774,530

Earnings per share (Note 12)

FAMOUS PLAYERS CANADIAN CORPORATION LIMITED
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF FUNDS

	<u>Fiscal year ended</u>	
	<u>January 2 1971</u>	<u>January 3 1970</u>
Source of funds:		
Operations —		
Net earnings before extraordinary item	\$ 4,283,578	\$ 4,659,050
Depreciation (including subsidiary communications companies sold, 1970 — \$631,515; 1969 — \$629,026)	3,738,507	3,244,328
Deferred income taxes	317,865	741,291
Share of undistributed earnings of 50% owned companies	(468,259)	(400,489)
	<u>7,871,691</u>	<u>8,244,180</u>
Reduction of investment and advances in affiliated companies	—	205,619
Net proceeds on sale of communications and other companies, excluding long-term notes receivable	11,786,892	1,499,400
Issue of additional capital stock	—	4,600,000
Issue of share warrants	—	1,000,000
Increase in long-term debt	476,392	1,985,578
Other items (net)	243,194	891,175
	<u>20,378,169</u>	<u>18,425,952</u>
Disposition of funds:		
Increase in notes and mortgages receivable	497,789	840,013
Additions to fixed assets (net)	8,134,515	10,899,224
Additional investment in subsidiary companies	290,918	5,460,399
Dividends paid	2,871,315	2,781,587
Increase in investment and advances in affiliated companies	242,682	—
	<u>12,037,219</u>	<u>19,981,223</u>
Increase (decrease) in working capital	<u>\$ 8,340,950</u>	<u>\$(1,555,271)</u>

**FAMOUS PLAYERS CANADIAN CORPORATION LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JANUARY 2, 1971**

1. Principles of consolidation:

The consolidated balance sheet at January 2, 1971 includes the assets and liabilities of the Company and all of its subsidiaries. The income and expenses of certain communications subsidiaries sold in 1970 have been eliminated in the 1969 comparative figures. The Companies' share of the net earnings of these subsidiaries for 1969 and prior to sale in 1970 have been shown separately in the consolidated statement of earnings.

2. Plan of arrangement:

Under a Plan of Arrangement approved by the Company's shareholders and sanctioned by the Supreme Court of Ontario the Company has completed the following reorganization (for the effect of the Plan of Arrangement as at January 3, 1971 see Exhibits 1 and 2):

- (a) The sale effective January 3, 1971 of all of the Company's business, undertaking and assets, other than communications assets, to Famous Players Limited, a newly-formed company. As consideration therefor the Company received all of the issued share capital of Famous Players Limited, which also assumed all the liabilities except for those deemed to be attributable to the communications business.
- (b) The Company's communications assets as at January 3, 1971 were written up by \$14,230,000 to fair values as determined by the directors and this amount was credited to reorganization surplus.
- (c) On March 12, 1971 supplementary letters patent were obtained confirming the Plan of Arrangement including the reduction of the authorized and issued capital stock by the cancellation of 3,571,564 common shares and by the cancellation of share purchase warrants entitling the bearers thereof to purchase 367,156 shares of the Company, then owned by Gulf & Western (Canada) Limited. Effective on that date the Company issued to Gulf & Western (Canada) Limited an income debenture in the amount of \$7,016,366 bearing interest at 4% per annum and repayable on or before June 30, 1972. Should the present tax benefits to the holder of the income debenture be changed by income tax amendments to its detriment, the income debenture will be converted to an ordinary debenture bearing interest at 1% above the prime Toronto commercial lending rate. The debenture will be secured by a pledge of 1,200,825 shares of Famous Players Limited. Subsequent to the issue of the debenture the Company paid to Gulf & Western (Canada) Limited an amount of \$11,000,000 in cash and is obligated to deliver to it 51.148% of the shares held of Famous Players Limited.
- (d) On March 15, 1971 supplementary letters patent were obtained changing the name of the Company to Canadian Cablesystems Limited and declaring it a "Constrained-Share Company" (Note 7).

3. Communications companies sale agreements:

- (a) During 1970 the companies sold certain communications assets consisting of their interests in ten companies and two properties, and two further properties held by 50% owned companies. These sales include the shares of Metro Videon Limited which were sold for cash of \$300,000 and notes receivable of \$1,350,000 under an agreement which was entered into on August 26, 1970, approved by the Canadian Radio-Television Commission on December 23, 1970 and closed in January 1971. These sales resulted in a gain of \$12,390,270 shown as an extraordinary item in the consolidated statement of earnings (Note 9).
- (b) Subsequent to January 2, 1971 the Company sold all of its interest in one company and 60% of its interest in another company for cash of \$325,000 and notes receivable and other consideration aggregating \$2,216,000. These sales have not been reflected in the consolidated balance sheet as at January 3, 1971.

4. Investment in 50% owned companies:

It is the policy of the Company to account on an equity basis for investments in companies where it controls 50% of the votes. On this basis the Company's share of earnings over dividends received from these companies has been added to the investment account and included in the consolidated statement of earnings under share

of undistributed earnings in the amount of \$468,259 and under gain on sale of investments to the extent of \$1,141,954. The Company's equity in the accumulated undistributed earnings of these companies to January 2, 1971, which has been added to the investment account, amounts to \$4,828,589.

5. Long-term debt:

	January 2 1971	January 3 1970
8% share purchase agreement (see below)	\$1,225,000	\$1,575,000
8½% mortgage payable in instalments, due 1974	937,500	987,500
Other mortgages at rates between 5% and 9% payable in instalments 1971 to 1979	980,159	1,050,272
Bank loans payable in instalments 1971 to 1972	1,210,000	581,000
Note payable due in instalments 1971 and 1972	742,500	—
Other purchase obligations and loans due 1971 to 1975	257,033	227,269
	<u>5,352,192</u>	<u>4,421,041</u>
Less: Instalments due within one year	<u>1,237,517</u>	<u>974,758</u>
	<u>\$4,114,675</u>	<u>\$3,446,283</u>

Instalments payable under a share purchase agreement amount to \$87,500 quarterly in 1970 to 1974. The shares purchased are held under an escrow agreement until full payment of the above balance of \$1,225,000.

6. Deferred income taxes:

In 1970 certain subsidiaries recorded retroactive adjustments for deferred taxes following the current utilization of prior years' losses for tax purposes. Accordingly the balance of retained earnings at January 3, 1970 has been restated from amounts previously reported to reflect the retroactive net credit of \$215,100. The deferred income tax expense for 1969 has been increased to reflect a charge to earnings of \$81,700 in that year; the balance of \$296,800 is applicable to years prior to 1969 and has been credited to retained earnings at December 28, 1968.

7. Capital stock and share purchase warrants:

(a) The Company has reserved 4,632,844 of the authorized common shares under rights attaching to its share purchase warrants following issue of the supplementary letters patent on March 12, 1971. These purchase warrants entitle the holder to purchase one common share on or before December 31, 1979 at \$25 per share, which price is subject to adjustment under the provisions of the Share Purchase Warrant Indenture. Purchase warrants for 600,672 shares were issued and outstanding following the cancellation of 367,156 warrants on March 12, 1971 and purchase warrants for 4,032,172 shares have not yet been issued.

(b) The Company has been declared to be a "Constrained-Share Company" under the provisions of supplementary letters patent dated March 15, 1971. The "constrained-class" consists of non-Canadian persons or corporations. As a result, a maximum of 20% of the outstanding shares of the Company may be held by the "constrained-class" and a maximum of 7½% may be held by any one member of the "constrained-class".

8. Real estate projects:

A partly-owned subsidiary has commenced construction of a building in Ottawa. The Company has agreed to jointly guarantee bank loans up to a maximum of \$5,000,000 in connection with this project. Subject to the approval of certain public bodies, a wholly-owned subsidiary is planning to construct a residential complex in Edmonton at an estimated cost of approximately \$9,000,000.

9. Contingent liabilities:

(a) The Company is contingently liable with respect to guarantees of obligations of affiliated companies in the amount of \$1,753,200 as at January 2, 1971.

(b) The proceeds received on the sale of the shares of one company (Note 3) may be subject to reduction by reason of a contingent liability up to a maximum of \$450,000 to the purchaser of such shares.

10. Lease commitments:

Minimum commitments as at January 2, 1971 for rentals of premises under 116 leases extending to the year 2060 amount to \$36,220,703. Rental expense for the year ended January 2, 1971 for the Communications and Theatre Divisions was \$319,735 and \$2,311,818 respectively; the minimum annual payments required in each of the next five years are:

1971	\$2,585,000
1972	2,476,000
1973	2,405,000
1974	2,295,000
1975	1,989,000

11. Depreciation:

Effective January 4, 1970 the Company is providing for depreciation on new additions to equipment on a straight line basis rather than the declining balance method used in previous years. This change has no material effect on the net earnings for the year ended January 2, 1971.

12. Earnings per share:

	1970	1969
Before extraordinary item	\$.60	\$.65
For the year	\$2.32	\$.80

The above earnings per share calculations are based on 7,178,288 shares outstanding prior to the reorganization effective on January 3, 1971.

13. Remuneration of directors and officers:

Remuneration of the Company's ten directors, as directors, and seven officers amounted to \$6,900 and \$231,506 respectively for the fiscal year ended January 2, 1971. Three officers of the Company also serve as directors.

AUDITORS' REPORT

To the Shareholders of
Canadian Cablesystems Limited:

We have examined the consolidated balance sheet of Famous Players Canadian Corporation Limited (now Canadian Cablesystems Limited) and its subsidiaries as at January 2, 1971 and the consolidated statements of earnings, retained earnings and source and disposition of funds for the fiscal year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at January 2, 1971 and the results of their operations and the source and disposition of their funds for the fiscal year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the matters referred to in Notes 6 and 11 to the consolidated financial statements, on a basis consistent with that of the preceding fiscal year.

Toronto, Canada.
May 4, 1971.

PRICE WATERHOUSE & CO.
Chartered Accountants

**CANADIAN CABLESYSTEMS LIMITED
AND SUBSIDIARY COMPANIES**

**PRO FORMA CONSOLIDATED BALANCE SHEET
JANUARY 3, 1971**

(Notes 1 and 2)

ASSETS

Current Assets:

Cash	\$ 2,196,899
Short-term investments	4,168,268
Marketable securities, at cost (market value \$558,105) ...	509,600
Receivable from affiliated companies ..	53,382
Other receivables	1,227,837
Inventories of merchandise at the lower of cost and net realizable value ..	297,308
Prepaid expenses	29,263
	<u>8,482,557</u>

Investments:

Notes receivable due after one year	\$ 4,090,867	
Investment in shares of affiliated companies (Note 2) —		
Famous Players Limited	19,329,916	
Companies 50% owned	8,896,260	
Companies less than 50% owned	<u>2,724,967</u>	
		35,042,010

Fixed assets, at cost:

Buildings, equipment and leaseholds	11,183,583	
Less: Accumulated depreciation	<u>3,841,231</u>	
		7,342,352

Excess of carrying value of subsidiaries over book value of underlying assets

8,632,698
\$59,499,617

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Bank advances	\$ 485,000
Accounts payable and accrued expenses	382,244
Owing to Gulf & Western (Canada) Limited (Note 2)	11,000,000
Current portion of notes payable	32,267
Income taxes	53,929
	<u>11,953,440</u>

Prepayments for services

973,684

Deferred income taxes

551,257

9½% notes payable, due in annual instalments

 1971 to 1975, less current portion

129,066

Income debenture (Note 2)

7,016,366

Shareholders' equity:

Capital stock (Note 4) —	
Authorized — 16,428,436 common shares without nominal or par value	
Issued — 3,606,724 shares	\$ 7,719,935
Share purchase warrants (Note 4)	1,000,000
Reorganization surplus (Note 2)	7,095,984
Retained earnings (Note 2)	<u>23,059,885</u>

38,875,804

\$59,499,617

**CANADIAN CABLESYSTEMS LIMITED
AND SUBSIDIARY COMPANIES**

**NOTES TO PRO FORMA CONSOLIDATED BALANCE SHEET
JANUARY 3, 1971**

1. Principles of consolidation:

The pro forma consolidated balance sheet as at January 3, 1971 includes the assets and liabilities of the Company and all of its subsidiaries following the completion of the Plan of Arrangement considered to be effective as at that date as referred to in Note 2.

2. Plan of arrangement:

Under a Plan of Arrangement approved by the Company's shareholders and sanctioned by the Supreme Court of Ontario the Company has completed the following reorganization and these transactions have been given effect to in the pro forma consolidated balance sheet as at January 3, 1971:

- (a) The sale effective January 3, 1971 of all of the Company's business undertaking and assets, other than communications assets, to Famous Players Limited, a newly-formed company. As consideration therefor the Company received all of the issued share capital of Famous Players Limited, which also assumed all the liabilities except for those deemed to be attributable to the communications business.
- (b) The Company's communications assets as at January 3, 1971 were written up by \$14,230,000 to fair values as determined by the directors and this amount was credited to reorganization surplus.
- (c) On March 12, 1971 supplementary letters patent were obtained confirming the Plan of Arrangement including the reduction of the authorized and issued capital stock by the cancellation of 3,571,564 common shares and by the cancellation of share purchase warrants entitling the bearers thereof to purchase 367,156 shares of the Company, then owned by Gulf & Western (Canada) Limited. Effective on that date the Company issued to Gulf & Western (Canada) Limited an income debenture in the amount of \$7,016,366 bearing interest at 4% per annum and repayable on or before June 30, 1972. Should the present tax benefits to the holder of the income debenture be changed by income tax amendments to its detriment, the income debenture will be converted to an ordinary debenture bearing interest at 1% above the prime Toronto commercial lending rate. The debenture will be secured by a pledge of 1,200,825 shares of Famous Players Limited. Subsequent to the issue of the debenture the Company paid to Gulf & Western (Canada) Limited an amount of \$11,000,000 in cash and is obligated to deliver to it 51.148% of the shares held of Famous Players Limited. The following entry has been given effect to as a result of these transactions:

	Debit	Credit
Capital stock	\$ 7,644,955	
Reorganization surplus	7,080,279	
Retained earnings	23,585,802	
Owing to Gulf & Western (Canada) Limited		\$11,000,000
Income debenture		7,016,366
Investment in Famous Players Limited		20,294,670

- (d) On March 15, 1971 supplementary letters patent were obtained changing the name of the Company to Canadian Cablesystems Limited and declaring it a "Constrained-Share Company" (Note 4).
- (e) Effective January 3, 1971 the investment in Famous Players Limited was credited and reorganization surplus was charged with \$53,737, being the Company's proportionate interest in the reorganization costs written off by Famous Players Limited.

3. Communications companies sale agreements:

- (a) The consolidated balance sheet as at January 3, 1971 gives effect to the sale of the Company's shares of Metro Videon Limited for cash of \$300,000 and notes receivable of \$1,350,000. This sale agreement was entered into on August 26, 1970, approved by the Canadian Radio-Television Commission on December 23, 1970 and closed in January, 1971.

- (b) Subsequent to January 3, 1971 the Company sold all of its interest in one company and 60% of its interest in another company for cash of \$325,000 and notes receivable and other consideration aggregating \$2,216,000. These sales have not been reflected in the consolidated balance sheet as at January 3, 1971.

4. Capital stock and share purchase warrants:

- (a) The Company has reserved 4,632,844 of the authorized common shares under rights attaching to its share purchase warrants following issue of the supplementary letters patent on March 12, 1971. These purchase warrants entitle the holder to purchase one common share on or before December 31, 1979 at \$25 per share, which price is subject to adjustment under the provisions of the Share Purchase Warrant Indenture. Purchase warrants for 600,672 shares were issued and outstanding following the cancellation of 367,156 warrants on March 12, 1971 and purchase warrants for 4,032,172 shares have not yet been issued.
- (b) The Company has been declared to be a "Constrained-Share Company" under provisions of supplementary letters patent dated March 15, 1971. The "constrained-class" consists of non-Canadian persons or corporations. As a result, a maximum of 20% of the outstanding shares of the Company may be held by the constrained-class" and a maximum of 7½% may be held by any one member of the "constrained-class".

5. Contingent liabilities:

- (a) The Company is contingently liable with respect to guarantees of obligations of affiliated companies in the amount of \$1,122,500 as at January 3, 1971.
- (b) The proceeds received on the sale in 1970 of a communications company may be subject to reduction by reason of a contingent liability up to a maximum of \$450,000 to the purchaser of such company.
- (c) The Company is contingently liable with respect to long term debt and guarantees of Famous Players Limited aggregating approximately \$5,800,000 and under lease commitments of that company extending to the year 2060 amounting to approximately \$35,900,000. Releases and discharges are presently being obtained from these obligations.

6. Lease commitments:

Minimum commitments as at January 3, 1971 for rentals of premises under 7 leases extending to the year 1988 amount to \$317,600. The minimum annual payments required in each of the next five years are:

1971	\$32,000
1972	31,500
1973	30,500
1974	29,500
1975	21,800

AUDITORS' REPORT

To the Directors of
Canadian Cablesystems Limited:

We have examined the pro forma consolidated balance sheet of Canadian Cablesystems Limited and its subsidiaries as at January 3, 1971. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of one of the subsidiaries.

In our opinion the pro forma consolidated balance sheet presents fairly the financial position of the companies as at January 3, 1971 after giving effect as at that date to the transactions set forth in Notes 1 and 2 thereto, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

Toronto, Canada.
May 4, 1971.

PRICE WATERHOUSE & CO.
Chartered Accountants

FAMOUS PLAYERS LIMITED
AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET — JANUARY 3, 1971

ASSETS

Current assets:

Short term investments	\$ 291,272
Marketable securities, at cost (market value \$1,913,020)	2,012,410
Receivable from affiliated companies	1,917,097
Other receivables	1,300,943
Inventories of merchandise, at the lower of cost and net realizable value ..	1,143,439
Prepaid expenses	1,439,084
	<u>8,104,245</u>

Investments:

Notes and mortgages receivable due after one year	\$ 1,172,719
Investments in shares of affiliated companies —	
Companies 50% owned (Note 3)	2,336,841
Companies less than 50% owned, at cost	394,558
Advances to affiliated companies	2,112,813
	<u>6,016,931</u>

Fixed assets, at cost (Note 3):

Land	12,413,382
Buildings, equipment and leaseholds	63,691,431
	<u>76,104,813</u>
Less: Accumulated depreciation	38,238,196
	<u>37,866,617</u>
	<u><u>\$51,987,793</u></u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Bank advances	\$ 2,281,184
Accounts payable and accrued expenses	3,042,836
Owing to affiliated companies	6,467
Current portion of long-term debt	1,205,250
Income taxes	282,453
	<u>6,818,190</u>

Prepayments for services	312,435
Deferred income taxes	708,494
Long-term debt, less current portion (Note 4)	3,985,610
Minority interests	594,738

Shareholders' equity:

Capital stock (Note 2) —	
Authorized — 8,000,000 common shares without nominal or par value	
Issued — 7,178,288 shares	\$32,933,591
Contributed capital (Note 3)	6,634,735
	<u>39,568,326</u>
	<u><u>\$51,987,793</u></u>

FAMOUS PLAYERS LIMITED AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED BALANCE SHEET — JANUARY 3, 1971

1. Principles of consolidation:

Famous Players Limited was incorporated under the laws of Ontario on September 9, 1970 and had no operations prior to January 3, 1971. The consolidated balance sheet as at January 3, 1971 includes the assets and liabilities of the Company and all of its subsidiaries following the acquisition referred to in Note 2.

2. Capital stock:

Effective January 3, 1971 the Company acquired all of the theatre business, undertaking and assets of Famous Players Canadian Corporation Limited in return for the issue of 7,178,288 of its common shares and the assumption of all liabilities except those deemed to be attributable to the communications business. The value of the shares issued was deemed to be equal to the book value to the vendor of the assets acquired, less the liabilities, except for fixed assets which were acquired at their undepreciated capital cost for tax purposes and certain investments which were acquired at book values excluding equity increases.

3. Contributed capital:

Subsequent to the acquisition of the theatre business and assets referred to in Note 2 the Company:

- (a) adjusted its investments in companies owned 50% to the carrying values to Famous Players Canadian Corporation Limited prior to the reorganization and in subsidiaries to an equity basis resulting in a net credit to contributed capital of \$6,338,108. The Company's equity in the accumulated undistributed earnings of 50% owned companies at January 3, 1971 which has been added to the investment account, amounts to \$1,573,634;
- (b) adjusted the value of the fixed assets acquired to their net carrying value to the vendor, resulting in a credit of \$406,627 to contributed capital;
- (c) charged to contributed capital estimated expenses of \$110,000 pertaining to the reorganization of Famous Players Canadian Corporation Limited.

4. Long-term debt:

8% share purchase agreement (see below)	\$1,225,000
8½% mortgage payable in instalments, due 1974	937,500
Other mortgages at rates between 5% and 9% payable in instalments 1971 to 1979	980,160
Bank loans payable in instalments 1971 to 1972	1,210,000
Note payable due in instalments 1971 and 1972	742,500
Other purchase obligations and loans due 1970 to 1972	95,700
	<u>5,190,860</u>
Less: Current portion	1,205,250
	<u>\$3,985,610</u>

Instalments payable under a share purchase agreement amount to \$87,500 quarterly in 1971 to 1974. The shares purchased are held under an escrow agreement until full payment of the above balance of \$1,225,000.

5. Real estate projects:

A partly-owned subsidiary has commenced construction of a building in Ottawa. The Company has agreed to jointly guarantee bank loans up to a maximum of \$5,000,000 in connection with this project. Subject to the approval of certain public bodies, a wholly-owned subsidiary is planning to construct a residential complex in Edmonton at an estimated cost of approximately \$9,000,000.

6. Contingent liabilities:

The Company is contingently liable with respect to guarantees of obligations of affiliated companies in the amount of \$631,000 as at January 3, 1971.

7. Lease commitments:

Minimum commitments as at January 3, 1971 for rentals of premises under 109 leases extending to the year 2060 amount to \$35,904,000. The minimum annual payments required in each of the next five years are:

1971	\$2,552,000
1972	2,445,000
1973	2,375,000
1974	2,265,000
1975	1,967,000

To the Directors of
Famous Players Limited:

We have examined the consolidated balance sheet of Famous Players Limited and its subsidiaries as at January 3, 1971. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the consolidated balance sheet presents fairly the financial position of the companies as at January 3, 1971 in accordance with generally accepted accounting principles.

Toronto, Canada.
May 4, 1971.

PRICE WATERHOUSE & CO.
Chartered Accountants

**ASSOCIATES AND EXECUTIVE OFFICERS
OF COMMUNICATION COMPANIES AFFILIATED WITH
CANADIAN CABLESYSTEMS LIMITED**

COMMUNICATION SUBSIDIARIES

HAMILTON CO-AXIAL (1958) LIMITED Hamilton, Ontario	Mrs. Lee Martini, <i>General Manager</i>
METRO CABLE TV LIMITED Toronto, Ontario	Mr. Austin Medford, <i>General Manager</i>
GRAND RIVER CABLE TV LIMITED	Mr. Udo Salewsky, <i>General Manager</i>

COMMUNITY ANTENNA ASSOCIATES

JARMAIN CABLE TV LIMITED Brantford and Newmarket, Ontario	Messrs. W. K. Jarmain and E. R. Jarmain
CHATHAM CABLE TV LIMITED Chatham, Ontario	London Free Press Holdings Limited and Jarmain Teleservices Limited
CORNWALL CABLEVISION 1961 LIMITED Cornwall, Ontario	Messrs. C. G. Markell and G. B. Markell
LONDON TV CABLE SERVICE LIMITED London, Ontario	E. R. JARMAN, <i>President</i>
OSHAWA CABLE TV LIMITED Oshawa, Ontario	Jarmain Teleservices Limited and W. J. Leask
ALBERNI CABLE TELEVISION LIMITED Alberni and Port Alberni, British Columbia	Mr. H. E. Warren <i>President</i>

TELEVISION ASSOCIATES

BRITISH COLUMBIA TELEVISION BROADCASTING SYSTEM LTD.	Mr. Ray Peters, <i>President</i> Operating CHAN-TV, Vancouver and CHEK-TV, Victoria
BUSHNELL COMMUNICATIONS LIMITED	Mr. E. L. Bushnell, <i>Chairman of the Board</i> Mr. Stuart Griffiths, <i>President and Managing Director</i> Operating CJOH-TV, Ottawa and operating CJSS-TV, Cornwall
TELEVISION DE QUEBEC (CANADA) LIMITEE	M. Jean Pouliot, <i>President and Managing Director</i> Operating CFCM-TV (French) and CKMI-TV (English), Quebec City

